
Negotiations Should Never Come Down to Price



By Filip Hron , INSEAD Lecturer & Horacio Falcao , INSEAD Senior Affiliate Professor of Decision Sciences

Focusing a negotiation on price puts both sides at risk of leaving out other interests that are more important.

So you are ill? Not to worry, because we have great news for you! We happen to know the cheapest doctor in town!

And you plan to go skydiving when you feel better? Fear not, we know someone who can offer you a great deal and pack your parachute for half the standard price.... And they even offer a full money back guarantee!

Our guess is that you are unlikely to take us up on either of our offers, despite them being the cheapest deals. As it turns out, negotiations are not about price. And when they do include a price, then that price is *for something in return*. And everyone cares about what they get in return, including you.

What if you deal with commodities?

“But what if you are dealing with commodities? That is, two identical things that can be substituted for one another. Surely then the negotiation comes down to just price?” is a question we get in almost every negotiation course.

Perhaps surprisingly, the answer is still “no”. No on two counts! First, when do you truly deal with commodities? Two vendors offering seemingly non-differentiated products such as electricity, drinking water or coal will differ in their capability of catering to your interests. One will have better reliability. One will have more responsive service. One will have more competent support staff. One will have more flexible billing. And so on. Even in the rare case where the specific product or services you are buying are indeed *identical*, the total value proposition *is or at least can still be differentiated*.

Second, negotiations are highly complex and dynamic systems. You cannot change one element of the system without sending ripple effects of reactions and consequences through that system. The likelihood and magnitude of these consequences, when they occur, and whom they affect, will vary. The point the negotiator needs to remember is that changing price *will* change *something else* in the negotiation. And if you have not fully assessed what those changes are then your demand for a concession (e.g. on price) will effectively introduce risk – unmanaged risk – into the negotiation. And while you can’t assess *all* the risks, anticipating some is clearly more sound than ignoring all.

Let’s for a moment consider an example close to home for you, your job. Assume you earn a salary – effectively the price for your services to the company – of US\$100k per year. Next assume your boss reduces your salary to US\$90k, i.e. a 10 percent discount, because he found someone else who is prepared to work for that amount. As a result of the price change what your employer gets from you *will* certainly change. You may now feel resentful and less motivated. You may feel less responsible for your work. You may focus less attention on quality and performance – things that may be helpful for a long-term career – and instead focus some of your effort on exploring other jobs elsewhere. And if you have less money in your pocket then maybe things in your personal life outside of work become harder or more time consuming, which may affect the energy and time you allocate to your job. If you stay you probably no longer trust your boss so you double your efforts in building your informal network at work so that you can navigate to another department, and another boss. Maybe other people in the company who saw or heard about this negotiation change their perceptions about your

boss...and even about *you*?

What if price is the last topic?

So negotiations do not “come down to price”. Rather price is merely one out of ten, twenty, or even a hundred interests that you have in the transaction. Yes, price is often dealt with last, but not because “negotiations come down to price”. Rather, from our observations, it appears that most people actually *fear* the price negotiation. They lack the tools and skills for *confidently* dealing with it. They push price until the last minute, in a futile attempt at avoiding the inevitable. Their negotiations then start to follow the predictable pattern of “Blah blah blah...” which fades into silence, followed by an awkward “Sooooo...”, followed by a pause, followed by “PRICE!”

But the negotiation *still never comes down to price*. Because the *moment* we change the price, we *instantly* change how well another interest is satisfied in the negotiation – even those already discussed and agreed!

In conclusion

The big problem for many negotiators is that they rarely develop a *full* understanding of their own and the other parties’ interests. Instead negotiators consistently focus myopically on a handful of salient interests, often centred on price. As a result, negotiators often don’t realise how their apparently successful bargaining on price is potentially reducing how well other important interests are met. Ultimately, negotiators who believe price can be negotiated by itself risk both asking for, and saying “yes” to, deals that are potentially *worse* for them than before the discount.

Let’s be clear. We are not saying that you should not negotiate for a discount. What we *are* saying is that you can’t change the price you pay without changing what you get in return. Thus, success in negotiation should not be based *whether or not* you manage to get that discount or concession. Rather success needs to be based on whether *the system* is in a *more valuable state* as a result of what you do. This requires you to think through the consequences and reactions, both positive and negative.

Horacio Falcao is a Senior Affiliate Professor Decision Sciences at INSEAD. He is also the programme director of **Negotiation Dynamics**, part of the school's suite of Executive Development programmes. He is the author of **Value Negotiation: How to Finally Get the Win-Win Right**.

Filip Hron is a Lecturer at INSEAD. He is the author of [**Negotiation Evolved**](#). You can read about him [here](#).

Follow INSEAD Knowledge on [**Twitter**](#) and [**Facebook**](#)

Find article at

<https://knowledge.insead.edu/career/negotiations-should-never-come-down-price>

About the author(s)

Filip Hron Filip Hron is a Lecturer at INSEAD. He is the author of Negotiation Evolved.

Horacio Falcao is a Professor of Management Practice in Decision Sciences at INSEAD and the author of [**Value Negotiation: How to Finally Get the Win-Win Right**](#). He is also the programme director of INSEAD's [**Negotiation Dynamics**](#) and two [**Certificates in Negotiation**](#) (Advanced & Online), part of the school's suite of Executive Education programmes.